

TAPR IQC Egypt  
Technical Assistance to Support Economic Policy Reform

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**Minutes of the Customs Cairo Roundtable**



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**Submitted by:**  
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Le Pasha Boat  
Zamalek, Cairo

Roberta Mahoney, Associate Mission Director, Office of Economic Growth, USAID welcomed the participants. She explained that the purpose of the meeting is for USAID to understand the complexities of Egyptian customs from the private sector vantage point and be better prepared to approach the Customs Authority with constructive recommendations for improving customs procedures.

Rasha Abdel Hakim, Senior Economist, Sector Policy Division, USAID presented the major findings of TAPR's Customs Needs Assessment study carried out in August 2001. Major points made in the study were:

1. Proper valuation is the key to improved customs services and GATT compliance.
2. Decrees released by the GOE were found to be not fully compliant with GATT. A lawyer provided by USAID reviewed the decrees and submitted recommendations to the GOE that would achieve compliance.
3. Automation, risk management and post-clearance audit should be introduced and all involved agencies (GOEIC, ministry of health) should be linked electronically. Consultants agreed that though there would be a loss of revenue in the short-term this would change in the mid- to long-term and actually increase revenue that would benefit the economy.
4. Communication and infrastructure at Customs must be improved.
5. Introduce bonds and sureties and implement 20% immediate release of goods without inspection.

She said that the Egyptian Exporters Association (EEA) and Customs officials met recently and discussed how customs can be improved. The EEA made three points

1. The Customs Law legislated in 1963 is very outdated.
2. Lack of transparency in the system hampers the ability of importers and exporters to finish processing goods quickly.
3. The drawback system remains slow in its working.

Commissioner Abu Sheshei responded that Customs has introduced a number of improvements. The first is the introduction of a "White List". This list now includes 360 companies who, having a good import history, are allowed to immediately clear items through customs and are excluded from the normal financial guarantees. The Commissioner also said they have introduced centers that allow for the clearing of goods before the shipment arrives. He added that ports will be linked electronically. He also said that transparency will be improved and has asked the private sector to provide input and recommendations for customs laws. He agreed that the implementation of GATT is slow and this is because it involves a significant ideological change for the majority of customs officials.

Hubert George, Managing Director, Colgate-Palmolive asked when the centers for pre-arrival clearance would be operating. Ms. Abdel Hakim replied that Customs officials say they will be operational in March 2002.

A number of participants pointed out that it has been a very difficult time since the new GATT valuation system was introduced in July 2001. Most feel that Customs does not understand the system; officials are not adequately trained and that the process has become more complicated rather than simplified. Ms. Abdel Hakim said that Customs is aware that many officials are not adequately trained and that the Customs Assessment Study highlighted training as an important component of any improvement in the system.

Abdo Badawi, Former Chairman, Horticultural Export Improvement Association (HEIA) said the drawback system, though it encourages imports for exporting, is not very clear in how it operates. He suggested that Customs put together a set of executive regulations that explain clearly and concisely how the system works. At the moment different government agencies and ministries interpret the system differently. He said that the only item that seems to be clear is the importation of cars. He said that Customs must change their mindset and realize that they should be a service-oriented agency and that trust between the business community and Customs is at very low point. As an example of the poor relations he said declarations should be accepted as true rather than false and that Customs often doesn't accept documentation from their own offices. He said the incentive to fine people in order to boost revenue for the Customs Service is hurting everyone and the system should not allow customs officials to be both judge and jury.

Mohamed Galal, Logistics Manager, General Motors recommended that importers be able to present all documentation prior to a shipment's arrival. Customs fees can be estimated, paid and the goods released immediately. As the system operates now the vessel arrives and then the paper work begins. This causes unneeded delays as people run around doing paperwork while goods remain stored at port for up to 2-3 weeks. He added that the responsibility of processing documents should be with Customs rather than the importer and that strict deadlines for the completion of processing be enforced so that Customs moves the process along quickly and efficiently. He also recommended that one document be acceptable for all shipments of the same good rather than a document for each shipment. The need for separate documentation for each shipment unnecessarily slows trade and increases costs.

Ms. Mahoney said she has heard many times before that invoices are regularly not accepted and that this is a clear sign that there is no trust between the parties.

Mr. Hisham El Attal, President, Egyptian Traders Company said that Chapter 7 of GATT shifted the responsibility of authenticating documents from the importer to customs and suggested that an independent body be responsible for valuation to verify invoices to overcome disagreements over documents. Ms. Mahoney asked who prepares the initial invoice. Mr. El Attal explained that the invoice originates with the commercial attaché of the Egyptian Embassy. Mr. Hubert George asked why require this document if in the end it is not accepted as a true and valid document. He added that the procedure is in any case overwhelming for any commercial office of any embassy to handle.

Mr. El Attal added that Customs is operating under the assumption that imports are a threat to the economy. He said this myth must be proven false before Customs can improve. He suggested that a study be carried out to show how imports support exports and the economy as a whole. He also added that the length of clearance procedures is too

long. Delays result in demurrage and storage costs that are paid in hard currency and add to the price of the goods and the cost of doing business in Egypt.

Mr. Hassan Hegazi, Head of Customs and Taxation Committee, American Chamber of Commerce in Egypt said that there are problems with documentation but that we as the private sector must be honest and admit that there are businesspeople falsifying documents. The introduction of a White List will help alleviate this problem and increase trust. He concluded by saying that the GOE has signed into GATT but is unable to implement it because of the fear of loss of revenue.

Mr. George commented that the formation of an independent body to verify invoices and valuations would not be a good idea. He said there are already too many committees and commissions and that it would further slow the system rather than speed it up.

James Norris, Chief of Party, TAPR Project said the GOE is in a state of transition. As the system moves towards a system of post-audit and risk management, rather than pre-verification, it will improve but significant training is needed to bring this about.

Iman El Shayeb, Program Specialist, USAID asked the participants what are the criteria for being put on the White List. No participant had a clear and definite answer but agreed that such a list is a step in the right direction.

Ms. Abdel Hakim said that in the case of the US Customs when the 20% release program was introduced Customs officials developed the list of eligible companies/importers based on previous good practices. Ms. Abdel Hakim added that there is fraud and the undervaluing goods but the penalty is very costly if caught. She said these huge penalties and focusing inspection on the more risky imports more than covered the loss of revenue when the US first introduced the 20% immediate release program.

Mr. Mohamed Shoukry, Finance Manager, ARTOC Group said that Customs has jumped immediately to the valuation verification procedure in Article 5 of GATT without looking at the first four articles. He also said arbitration is not helping as it itself is a slow and cumbersome process. Ms. Abdel Hakim said that this is a clear violation of GATT and that Customs should not move onto Article 5 until first proving the documentation provided was false. She also said there are problems within Decree 765 in the area of defining value.

Ms. Mahoney asked the participants to discuss ways to promote trade, increase trade transactions, and where port services could be improved

Mr. George said that one way to increase trade for Egypt is to have no controls on exports. Competition and quality as assessed by the buyer should determine what is exportable not a government body. Exports are self-regulating; if the quality or price are not competitive you will not do business.

Hany Kolaly, Executive Director, Horticultural Export Improvement Association (HEIA) said that the standards and testing system used in Egypt impedes trade. Labs are not accredited nor do they provide up-to-date technology or timely services. He suggested that international standards be used and that testing be ended. He also said that to

improve port services ports should be linked to the railroad system. He said in the field of horticulture there is great potential for exports if the rail and transport system is improved between the ports and particularly Upper Egypt.

Hany Yousef, Clearing Manager, Nestle said there are no links between the different ports and each port follows its own system. He added that foodstuffs sometimes are kept at the port for 2-3 weeks because of a backlog at the few available laboratories. Often goods are damaged or spoiled in poor storage facilities.

Mr. George said there is a discrepancy in the testing of materials because testing is required of imported inputs but not locally made inputs. He said that a certificate of quality from the supplier should be more than enough and that this is in line with ISO procedures.

Hassan El Shafei, President, ALU-GLASS said there has been improvement in this area. As of February 2002 importers are allowed to use international inspection companies at the port of origin. He added that this excludes foodstuffs, which is under the tight control of the Ministries of Health and Agriculture. The procedure allows you to bypass Customs, testing and ministries when the goods arrive in port. It is an option though may be expensive for some importers. He said that the Minister of Health still has a firm hold on foodstuffs and he doesn't see this changing in the near future. He added that the first private port now operating at Ein El Sokhna is proving a success. He said customs at the port is more flexible and practical in there dealings.

Mr. Galal said there remains a problem with transparency and communication between Customs and the business community. He said he has been blindsided more than once by new decrees and procedures introduced without sufficient lead-time for the private sector to comply.

Mr. George agreed with this and said businesspeople in Egypt must remain alert, as information is hard to get. Mr. Kolaly said the information is often available but the GOE is weak on implementation. For example there was much said about a tax rebate for horticultural projects but until now he knows of no one who has benefited from this rebate.

Mr. Attal said that the Ministry of Health remains a significant obstacle to streamlining customs procedures. He said there is not significant pressure on the involved agencies to move the process along. He said that labels often cause serious problems. A mistake in the labeling can mean re-exporting the shipment or even jail. Mr. George said that in the area of labels there is little differentiation between intentional fraud and a simple mistake.

Khaled Hegazy, External Relations Manager, Procter & Gamble asked how the private sector can help to automate the system if the GOE is unable to do so because of the lack of funds or expertise. Mr. El Shafei opined that money and resources are not a problem. He said the GOE has the money and the expertise but not the political will to make the necessary changes. He said Alcatel was involved in a large automation program for customs that was initiated 12 years ago but it went no where.

Haytham El Gamal, Purchasing Director, PepsiCo said that automation would lead to a cutback of labor which the GOE doesn't want to do. Also an increase in automation would curtail corruption which vested interests in Customs are not ready to accept.

Mr. Kolaly recommended that incentives be changed and improved. Better salaries and training would help Customs. Incentives should be tied to training and goods processed rather than fines.

J. Wright, Trade Advisor, USAID asked what are the methods available for financing trade and how can they be improved to better move goods through the system.

Mr. El Attal said pre-export financing is virtually non-existent because of the initial lack of collateral. He said export credit is available though this is accessible only to those that are already exporting. Financing of imports is non-existent and impedes exporters, as they cannot always secure financing for needed inputs.

Mr. El Shafei opined that the system as a whole is negative and that Egypt is very close to having no credit system. He said he raises all necessary financing through private means and that even if credit were available the present 13-15% interest rate makes it impossible for most to take a loan.

Ms. Mahoney said that at a similar meeting in Alexandria bankers told her that money is available but that they are very aware of ensuring that loans are used for importing productive goods not simply consumer goods. Mr. El Shafei replied that he is not aware of any new credit being issued regardless of how it is to be used.

Ms. Mahoney asked the participants to offer suggestions and recommendations for improving port facilities.

Mr. George said that the port at Alexandria was closed recently for one week including Customs. He asked why the Customs didn't remain open to clear what had already arrived at port. He added that infrastructure is adequate and said that he doesn't see the point of spending large amounts of money on the physical facilities at the ports if the main obstacle is customs procedures.

Mr. Kolaly said that the ports are adequate for horticultural goods but not the airport as it doesn't provide refrigerated storage facilities. He said the HEIA secured loans and grants from donor sources in excess of \$20 million to build a facility but the GOE refused a private organization implementing such a project.

Ms. Mahoney at this point summed up the discussion highlighting the important points discussed.

1. Customs should move away from extended post-arrival clearance procedures to a more streamlined system and post-import audit system and introduce a pre-arrival clearance system.
2. Remove conflicts of interest that exist in the inspection and arbitration processes.
3. Incentives must be changed and improved to create a service-oriented system.
4. Introduce practical solutions that are straightforward and transparent. As it is now there are no consistent and fixed procedures that are followed in all ports.

5. Stop controls and procedures for exports.
6. Credit system needs to be reinvigorated with more funds made available for potential exporters.

Mr. Khaled Hegazy asked how other countries similar to Egypt have dealt with increasing trade, complying with GATT and increasing exports.

Mr. Norris offered Jordan as an example of a country in the region that has moved decisively towards increasing trade and complying with WTO agreements.

Mr. Wright said that comparisons could be done using different criteria such as volume of trade or population. Dubai does a volume of trade similar to Egypt but its population is 1 ½ million.

Mr. El Shafei opined that no more studies are needed because he believes the GOE has done many study tours and is very aware of what other countries have done to increase exports and trade. He said the GOE must use the information they have-which is considerable- and make a policy decision and implement it.

Mr. El Attal said such knowledge of other countries' customs and trade systems would be useful to the private sector. If the private sector were able to use the experiences of what other countries have done and show that the changes did not adversely affect revenue and increased trade it would be a powerful lobbying tool.

Roberta thanked the participants for their opinions and recommendations.

#### USAID participants

1. Roberta Mahoney	Associate Mission Director
2. David Atwood	SO16, Team Leader
3. Lynn Dunn	Commodity Import Program (CIP)
4. Rasha Abdel Hakim	Senior Economist
5. Femihan Shaker	Project Specialist
6. Iman El Shayeb	Program Specialist
7. J. Wright	Trade Advisor
Michael Colby	Environmental Finance and Economic Advisor with the Egyptian Environmental Protection Project (EEPP)

#### Private Sector participants

1. Hassan Hegazy	Chairman Customs Committee	American Chamber
2. Yacoub Ayad	Financial Controller	Groupe Sonid
3. Hany El Kolaly	Executive Director	Horticultural Export Improvement Association (HEIA)
4. Hubert George	Managing Director	Colgate-Palmolive
5. Khaled Hamza	President	EBA
6. Hisham El Attal	President	Egyptian Traders Co.
7. Mohamed Shoukry	Finance Manager	Artoc Group
8. Hany Yousef	Clearing Manager	Nestle
9. Haytham El Gammal	Purchasing Director	PepsiCo Egypt
10. Mohamed Galal	Logistics Manager	General Motors Egypt

11. Abdel Moniem Hamed	Purchasing Manager	Heinz Egypt
12. Khaled Hegazy	Ext. Relations Manager	Procter & Gamble
13. Abdou Bedawi	Member	Horticultural Export Improvement Association (HEIA)
14. Hassan El Shafei	President	ALU-GLASS
15. Amr Assal	Chairman	Egyptian Junior Business Association (EJBA)
16. Hatem El Zuhairy	Executive Director	Egyptian Junior Business Association (EJBA)
17. Hala Fawzy	Chairman	Trans Global Marketing/Future Business Women Association
18. Nadia Abo Affifi		Trans Global Marketing/Future Business Women Association
19. Omnia Samir Baker	General Manager	Trans Global Marketing
20. Samia Abdel Latif	General Manger for Accounts	Electrostar Co.
21. Bahey El Baroudy	Member	Horticultural Export Improvement Association (HEIA)